

PRINCIPAL GROUP LTD.
ANNUAL REPORT 1976





Financial Synopsis

	December 31, 1975	December 31, 1976	Percentage Increase
Consolidated Assets	92,000,000	105,000,000	14%
Income	7,500,000	8,600,000	14%
Profits	800,000	2,500,000	210%



The Principal Group of Companies

The Principal Group of Companies is a diversified group of financial companies. The Group offers Thrift services, Trust services, Mutual Fund services, Life Insurance services, Specialized Tax services, Mortgage services and Investment Advice and Management services.

The Principal Group of Companies is dedicated to the principle of establishing a "one-stop financial center." Services are marketed through retail centres and directly by a field force.

The Principal Group of Companies has its headquarters in Edmonton, Alberta, Canada. Alberta affords special advantages to a financial institution in

terms of taxes and its climate of strong economic growth.

The Group operates from St. John's, Newfoundland, to Victoria, British Columbia. In addition, the Group operates in the Pacific Northwest of the United States. The United States operations are based in Seattle.

The Group was founded in Edmonton in 1954.



Investment Fund Performance

	Dec. 31 1974	Dec. 31 1975	Dec. 31 1976	% Increase during 1975	% Increase during 1976
Principal Venture Fund (Capital Appreciation)	1.55	2.19	3.10	41.3%	41.6%
Collective Mutual Fund (Balanced Growth)	4.14	5.10	6.26	23.2%	22.7%
Principal Growth Fund (Growth for Tax-Deductible Retirement Savings)	2.96	3.74	4.19	29.2%*	19.5%*

* (Percentages include income and dividend distribution.)

President's Letter

In 1976 our net income was just under \$2,500,000, a substantial increase from \$800,000 the year before. This is an all-time record for the Principal Group.

The consolidated assets increased by \$12 million to \$105 million, which marks the first time we have been over the \$100 million mark in consolidated assets. In addition, Principal Group has a large number of managed accounts from which it receives fee income, but which are not included in the consolidation. The most significant of these are the three mutual funds.

Our cash and liquid securities have doubled in the past two years to \$36 million and now comprise a third of our total assets. The market value of our securities has increased by \$3 million in relation to cost. We now have \$30 million of immediate book value liquidity, which can meet all contingencies.

The Company is still holding its 60,000 square foot office building site, located across from the Chateau Lacombe in downtown Edmonton. In 1976 we ceased carrying the property's appraisal surplus of \$1,300,000 on the Company's books. Based on current development discussions, the property appears to have a current value of \$5,500,-

000 substantially above the book value of \$1,800,000.

Shareholders' Equity

Principal Group's shareholders' equity increased 70% in 1976, to \$6,600,000. The surplus for the year was converted into permanent capital stock, which will provide a strong base for the Group's current expansion program.

During the year, an unusually large portion of the profits of the certificate companies was declared, at the sole discretion of the directors, as "additional credits." This had the effect of increasing the return to the certificate holders. The actual profits allocated as "additional credits" increased by 55% to a record \$1,285,000 for the year, which in turn reduced the Company's share of operating profits to \$500,000.

Executives

Over the years, Principal Group has attracted a number of outstanding executives. Lately, however, this has created special problems. The economy is so prosperous in Alberta, and particularly in Edmonton, that experienced executives are in great demand.

In particular, the Alberta government, by moving into direct business ventures such as the Alberta Mortgage Corporation and the Alberta Energy Corporation, has proved the greatest competitor for executive talent. The Alberta government has been successful in attracting five senior executives, including three leading Chartered Accountants, from the Principal Group into their senior executive ranks.

We are delighted to see government companies attract outstanding executives, but we

are, naturally, feeling the loss to our own organization. A compensating advantage, however, is that it has given us the opportunity to promote several women, with long experience in the Group, to senior executive positions.

New Systems

We have been planning for some years to streamline our cash handling and disbursing system, to speed up and simplify our deposits and cheque clearing and provide improved service to our customers. We have now received regulatory approval for the use of a single cheque for all products, with a consequently simpler and more understandable accounting for the customer.

We propose to extend on-line, remote entry and remote printout facilities to each of our offices, with improved audit and simulation facilities for those working at the supervisory level. In effect, we will have continuous monitoring and control of every dollar in the system through all product lines. This will greatly increase our efficiency and should substantially reduce our costs and increase our spread.

Sales Expansion

Our economic simulations, particularly of the United States economy, indicate the beginning of a major stock market rise that will more than double the Dow-Jones index over the next three years. Consequently, we are now in the process of expanding our sales force rapidly.

Sales are already up substantially over 1976, and Principal Group will set a new sales record in 1977.

Investment Management

The management performance of our Securities Department has been particularly outstanding in 1976. Of over 130 funds in Canada, Principal's three mutual funds have been among the very best performers

for over two years. Collective Mutual Fund increased 23% in 1975 and a further 23% in 1976. Principal Growth fund increased 29% in 1975 and a further 20% in 1976. Principal Venture Fund increased an amazing 41% in 1975 and a further 42% in 1976 for a compounded growth rate of over 40% a year for the last two years.

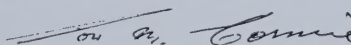
For over 23 years we have had affiliates doing economic research and developing the techniques of economic simulation and forward projection for private accounts. It is only in the last two years, however, that the full facilities have been available to Principal Group through the development of Principal Securities Management Ltd. The

exceptional results speak for themselves.

We are told that currently Principal Group is the second largest non-governmental bank account and the largest non-governmental securities account in the city of Edmonton. We are rapidly growing in the number of accounts and in total volume as investors realize exactly what Principal Group's management is able to do for them in their investment programs.

The current economic environment provides unique opportunities for Principal Group, its employees and its customers. With careful control and efficient management we expect that all will have an outstanding year in 1977.

Cordially,



Donald M. Cormie, Q.C.
President and Chairman of
the Board



Economic Environment

International

The Western world made small though definite steps during 1976 toward improving its economic situation. A resolute but flexible monetary discipline has been adopted by OECD policy members. The real success of 1976 has been in the struggle to bring inflation down, greatly aided by excellent agricultural yields throughout the world and consequent lowering of politically sensitive food prices.

Severe economic problems still exist, particularly in the United Kingdom and Italy. The imposition of IMF rule in the United Kingdom, however, has made the options clear: effective wage and price policies or a tightened money supply.

It is in the central economies of the United States, Germany, and Japan that real progress can be observed. All have adopted mildly expansionist policies in the face of moderating inflation rates and relatively high unemployment. Growth in these central economies should pull the other OECD economies into more favourable positions.

The risk of trade confrontation has moderated during 1976. It does, however, present pitfalls to export-led recovery for some economies. Particularly exacerbating are the Japan-Western Europe and the Japan-United States confrontations on trade.

The political situation in Europe raises a little more concern for investors. An uneasy political alliance in Italy and increased political penetration by the forces of the left in France will probably affect private capital flows in those areas. The relative attractiveness of North America shows increasingly in the flow of private European capital to North American securities.

Within North America, eco-



omic prospects are brighter than in most other industrial economies. The United States economy is, arguably, in the healthiest position among the Western economies. Certainly the weaker economies are lured to United States-led growth as a cure for their own ailments.

The United States economy should see continuing downward pressure on inflation during 1977 and 1978. Growth, however, will be in the moderate 4% - 6% range over the next few years.

The evidence seems to indicate that most Western

L. to R.: John M. Cormie, Manager, Marketing Dept., 7 Years Service; Robert D. Langston, C.A., Taxation Officer, Principal Group Ltd., 4 Years Service; Robert J. Kallir, Legal Advisor, Principal Group Ltd., 1 Year Service.; John P. Hickey, Planning Officer, Principal Group Ltd., 1 Year Service.

economies will continue their slow improvement, led by Japan, Germany and, particularly, the United States. European interest in North American investment opportunities should remain high, and will appear in increased demand on the security markets.

Canada

Canada, after enjoying substantial export growth in raw materials during a plague of world shortages, is now reacting to the pressures of inflation. Tight money and fiscal policies are likely to be maintained despite high unemployment. Nonetheless interest rates should still manage to work downward in Canada. Canadian growth will be limited to export industries and, in particular, exports of raw materials to an expanding productivity in the United States.

Within Canada, areas of uncertainty exist. The post-AIB period, expected to begin during 1977, raises fears of a new round of wage inflation. The election of a Nationalist government in Québec has strained the Canadian union. There has been some pressure on the Canadian dollar, not entirely the result of the Québec election, and a slower reception of Province of Québec bond issues. Whatever the ultimate consequences of the "Péquiste" victory, events will evolve gradually over a period of many years, easing immediate economic speculation.

In 1976, the Federal Government introduced amendments to the Bank Act. Among the proposed amendments are requirements: that all "near-bank" financial institutions maintain reserves with the Bank of Canada; that a national Electronic Funds Transfer system be implemented; and that all banks and "near-banks" join a common clearing system. All these have engendered controversy, but such proposals indicate a trend towards allowing



Left: **Kenneth M. Marlin**, President, Principal Consultants Ltd., 23 Years Service; Right: **Addy M. Smith**, Senior Legal Assistant, Legal Dept., 13 Years Service.

Left: **James M. Cormie**, Manager, Stock and Bond Dept., 7 Years Service. Right: **Wayne E. Fuhr**, Manager, Mortgage Dept., 4 Years Service.

non-bank financial institutions to acquire some banking privileges and responsibilities.

Alberta

Despite trends toward higher unemployment and restricted growth in Canada as a whole, the Province of Alberta, enjoying certain benefits and independent powers under Canada's federal system of Government, has remained a bright spot in the national economy. Producing over 80% of Canada's oil supply, almost all of its natural gas supply, and containing huge, largely



unexploited coal reserves, Alberta has remained outside the atmosphere of international pessimism. Alberta's economy is not entirely based upon oil and energy; the province enjoys a very successful agricultural industry in exportable grains and beef.

The Province is the major supply center and transportation link between the largely undeveloped North and the rest of the continent. An active and growing financial industry is developing in the Province. As a result of the Province's energy supply and secure services, the development of an industrial base has been established. Initially such development is taking the form of petroleum-related developments such as plastics, chemicals, and fertilizers.

With substantial oil revenues to reduce its tax requirements, Alberta has no sales tax, no gift tax, no personal property tax, no estate tax or succession duties, and it has one of the lowest debt structures of any Province or State on the North American continent. In addition, Alberta has the lowest income tax rates and the lowest corporate tax rates in Canada.

The Province has a long history of stable, progressive, free-enterprise governments, together with one of the most highly-developed social assistance and protection programs in North America. In addition, the Province of Alberta, in a move unique among North American governments, has set aside substantial portions of its natural resource revenue, amounting to as much as one billion dollars per year, in the Alberta Heritage Savings Trust Fund. The Fund, in effect, is a collective form of savings, and provides Albertans with a protective cushion as future resource revenues decline.

The Alberta Government is promoting an active and healthy financial industry for the Province. To this end the Association of Alberta Trust Companies has been meeting with the Department of Consumer and Corporate Affairs to explore the operating climate of Alberta-incorporated Trust Companies. The goal is to develop the climate for a healthy, indigenous financial industry.

Edmonton

Edmonton is the capital of the Province of Alberta and the international Head Office of the Principal Group of Companies. Edmonton is the supply,



*L. to R.: **Eric J. Espenberg**, Office Manager, 17 Years Service; **Alex Babich**, Systems Manager, Information Services Dept., 7 Years Service; **F. Denis Marson**, Business Development Officer, Principal Savings and Trust, 7 Years Service; **Herbert D. Schnelle**, Manager, Real Estate Division, 4 Years Service.*

research, transportation, manufacturing, financial, and warehouse center for the vast projects planned for Northern Alberta and Northern Canada. The center of a rich agricultural region, it supports active agriculture-based industries, including meat packing, food processing and grain distribution. Edmonton is in the center of the Province's oil and gas industry.

During 1976, over \$618 million in building permits were issued in Edmonton, an increase of 56% over 1975. Manufacturing shipments reached an estimated value of almost \$2 billion during 1976, and retail trade totalled an estimated \$2.4 billion. Through 1976 the value of bank clearings exceeded \$45 billion.

Edmonton, with a metropolitan population of 600,000, is in an excellent position to respond creatively to the dynamics of growth. The city is the educational center of Western Canada and enjoys the same vitality in its recreational and cultural affairs as it does in its economic life. In 1978 Edmonton will be welcoming the Commonwealth to the 50th anniversary of the Commonwealth Games.

The combination of political stability and economic growth is attracting international capital. Japanese, German and Italian capital are particularly active in joining traditional American, British and Central Canadian capital.

Within this environment, Principal's prospects for growth are exceptional. Against a background of declining interest rates, rising equity markets, economic growth and stability within the Group's major areas of operation, Principal is prepared to meet the challenge of growth.

Management

Internally, Principal starts from a base of long-term proven experience in its management capabilities, both at the Head Office level and in its Field Force.

Training

In late 1976, the company embarked upon a management-building program, to be continued through 1977. The program concentrates on two major areas: to attract and develop new talent, particularly as it relates to building greater depth into our managerial group; and to initiate and carry out an imaginative education program to provide our managers with exposure to tools of modern management. Seminars and educational programs across Canada, in the United States, and in Europe have been attended and will be attended by Principal personnel. The Group has made extensive use of a unique conference center near Victoria, British Columbia, for management education and management programs.

Decentralization

In 1972, Principal experimented with decentralized management to allow subsidiary companies to develop their own management groups. The aim was to engender a competitive management atmosphere and provide a basis for comparative analysis by the Board of Directors of Principal Group Ltd.

It became apparent that Principal was not of a size to duplicate major management functions in an environment of rapidly escalating costs and wages. Techniques for surveying and monitoring the financial industry and internal analytical models developed by the Information Services Department provide

unique new tools for measuring performance. As a consequence, in its 1976 business plan Principal formally adopted a functional management structure.

Broadly speaking, Principal's Management is divided into three major areas: "money in," "control and administration," and "money out."

Sales and Marketing

The core of Principal's "money in" function is its 150-man Field Force, located in 10 Regional Offices across Canada. This force is managed by Principal Consultants Ltd. Principal Consultants Ltd. is divided into three functions. First is the Sales Development Division, which is organized to hire and train people to market Principal's basic Thrift Programs. Second is the Account Executive Division, which is composed of people who, through years of experience with Principal, have developed specialized markets and approaches to those markets. Third is the Customer Relations Division, headed by a C.R. executive in Edmonton, who co-ordinates efforts through three Area C.R. Supervisors. The C.R. Division is charged with the responsibility of monitoring and improving the retention of business and co-ordinating continuous contact with Principal's clients through the Account Executive and Sales Development Divisions.

As a unit, then, Principal Consultants Ltd. aims to provide Canadians with what amounts to a one-stop financial center.

In addition, Principal is developing retail one-stop financial centers through Principal Savings and Trust Company. Trust services are marketed with the rest of Principal's family of services to provide clients; whenever possible, with most financial services under a single roof.

Principal is emphasizing the

development of a direct marketing approach to complement and expand its Field Force and retail centers. Such a marketing approach involves third party direct mailings, client inserts, the brokering of Principal products and services, and advertising.

Control and Administration

Function

Principal is fortunate to have maintained a dedicated and loyal core of personnel in its control and administrative functions. Its record of service in this area is simply not matched elsewhere. Administration is involved in processing over \$50 million annually in new business, providing our thousands of clients with over 90,000 statements and over 25,000 tax receipts. Through the Information Services Department, Administration provides managers with timely information on all aspects of their business, from Daily Spread Analysis and Daily Cash Analysis to long-term comparative analysis of competing businesses. The Control function is responsible for maintaining policy and procedures, administering departmental budgets, and monitoring the Group's cash flow.

The heart of Principal's Control and Administrative function is its Information Services Department, currently based upon the Univac 9480 computer facility.

Expansion

Principal is currently undergoing a complete and thorough review of its information system. The review is dedicated to meeting the growth of the next few years. It has been determined that Principal must move from a batch base to a data base to prepare for eventual on-line capability. By surveying all available expertise in this area, Principal hopes to develop a

system, necessarily unique, that will minimize disruption and cost in a major undertaking.

Investments

The Investment Department represents the "money out" function of Principal. It consists of the Stock and Bond Department and the Mortgage Department.

Principal's investment strategy and parameters are set by the Investment Committee, which meets weekly to analyze economic trends, set policy, and verify adherence to policy.

Stock and Bond Department

The Stock and Bond Department was re-organized in 1976 under a newly incorporated company, Principal Securities Management Ltd. The new company



L. to R.: D. Robert Cormie, Analyst, Stock and Bond Dept., 8 Years Service; Maureen P. Eggerton, Customer Service, Administration Dept., 18 Years Service; Frances Ross, Maturities Supervisor,

Administration Dept., 25 Years Service; Olecia Buhay, Payroll Manager, Administration Dept., 17 Years Service; Joseph A. Schacter, Portfolio Manager, Stock and Bond Dept., 1 Year Service.

was set up as a consequence of what Principal felt to be retrograde changes in legislation (The Alberta Trust Companies Act), which inhibited the management functions of Alberta trust companies without imposing the same limitations upon other Canadian companies.

The Stock and Bond Department has been very aggressive since late 1974. Managing three investment funds and virtually all corporate accounts, the Stock and Bond Department has enjoyed good success over the last year. It maintains a sophisticated communications system that places it directly in the major markets, particularly Toronto and New York. The Department has relations with more than 40 investment houses.

Mortgage Department

The Mortgage Department of Principal has developed an excellent reputation for quality. Given the particular buoyancy of the Alberta economy, and its proximity to the market, the Department maintains a preponderance of Alberta investments. The Department does pursue a national investment program also, balancing the need for security with the desire to re-invest dollars in the area of origin. The Mortgage Department has a policy of diversifying its portfolio among residential, commercial, and construction loans and also of writing mortgages with varying terms.

The Principal Mortgage Department also practises the policy of lending no more than 75% of appraised value, thus providing further protection to our investors.

Short-Term Investments

Co-ordinating the flow of funds from sales, to investments, to our clients is the short-term Funds desk. The desk is able, in co-ordination with the Information Services Department, to provide daily cash analysis to management and is

charged with projecting future cash flows. The desk is responsible for very effective short-term cash management and attendant earning maximization.

Diversification

The late 1960's and early 1970's were a period when the financial institutions whose growth was based upon a direct field force were under severe pressure. Many such sales forces completely disappeared, as did many of the companies. Those companies whose field forces survived, among them Principal, are today flourishing.

Probably no factor has been more pre-eminent in Principal's success than its planned diversification — asset diversification, product diversification, and economic cycle diversification.

Asset Diversification

Principal has always practised asset diversification, and this is, in fact, a concept we stress to our clients as a prudent practice. A constantly monitored balance is maintained among major asset groups, such as mortgages, real estate, equities, corporate debt security, and government debt securities. In addition, Principal practises asset diversification in terms of guaranteed and managed funds.

Product Diversification

Principal also practises product diversification, which requires intensive licensing by various Provinces and States of the United States, through provincially and federally chartered companies and United States incorporated companies. This kind of product diversification allows Principal to respond quickly to changing economic and competitive climates.

Cyclical Diversification

Cyclical diversification is promulgated to maintain assets and investment strategies designed to take advantage of all stages of

the business cycle. One of the most popular and fastest-growing products is Principal's Balanced Program, allowing the investor to practise cyclical investing.

All these systems of diversification can be summed up on an examination of the structure of the Principal Group of Companies.

Corporate Structure

Management Services

The management services for the Principal Group of Companies are organized under Principal Group Ltd. Management services consist of the Control function for all operating areas, Information Services through the Group's computer facility and managerial staff as situations warrant.

Principal Group Ltd. is geared to evaluate management performance through information retrieval techniques. Criteria include cost-efficiency, progress toward management objectives, adherence to Group policies and procedures, and of course the meeting of profit objectives.

Principal Group Ltd. has initiated an extensive training program among Head Office managers and personnel. The focal point of our management training program is exposure to modern management techniques. The principal elements consist of careful analysis of needs, effective selection of courses and course participants, and the implementation of group sessions at the Victoria Conference Center.

A number of new management techniques have been introduced through this educational process. New and traditional cost-cutting and time-saving procedures were applied. Process and performance, particularly in inter-office banking and customer relations, were greatly improved. Principal plans to

extend this program during 1977.

Thrift Services

The Thrift Services of the Principal Group of Companies are organized under our two certificate companies. Each company has a distinct jurisdiction and management role.

First Investors Corporation Ltd. is an investment contract company and distributor of savings certificates and mutual funds in six provinces of Canada. Founded in 1954, First Investors was the first company in the Group. The Company's investments are of the type permitted under the Canadian and British Insurance Companies Act (Canada).

Associated Investors of Canada is an investment contract company and a distributor of savings certificates in the Province of Alberta. Associated Investors, the oldest company in the Group, was founded in 1948 and joined the Group in 1962. The Company's investments are of the type permitted under the Canadian and British Insurance Companies Act (Canada).

Over a period of twenty-eight years, First Investors and Associated Investors have made thrift their business. A Thrift Plan is simply a systematic savings program designed to assist people in realizing their savings goals. Principal's Thrift Plans combine a self-imposed obligation, a systematic schedule of savings and definitely-established goals. All of these elements are important for eventual success. The entire plan is then combined with low-cost life insurance coverage. Often, one of the Companies' Thrift Plans is the only cashable asset an individual or family possesses. First Investors and Associated Investors consider it their fundamental responsibility to conserve the principal of those savings programs.

As of December 31, 1976, First Investors had assets of \$60 million. These assets were dis-

tributed through the mortgages (\$33 million), bonds of the Government of Canada (\$13 million), and other assets (\$14 million).

Associated Investors maintains its assets of \$16 million largely in first mortgages (\$11 million) and government and corporate bonds (\$4,500,000). The only difference of consequence between First Investors and Associated Investors is that the latter holds only a small portfolio of common stock.

The net result is a pair of companies that enjoy a high degree of liquidity and yield in non-mortgage investments, in addition to well-positioned mortgage portfolios, in terms of yield and value.

Asset diversification protects our clients, while product diversification gives us management flexibility.

Although our thrift services are marketable under all economic conditions, they are much more readily marketable under conditions of stable or declining economic growth.

Investment Funds

As a balance to our certificate services, Principal markets three investment funds: Collective Mutual Fund Ltd., Principal Growth Fund and Principal Venture Fund Ltd.

Collective Mutual was established in 1963 as a balanced fund. Currently, Collective Mutual maintains a strong position in the United States market. Investment in the United States consists primarily of equities in blue-chip companies and in the corporate convertible bonds of blue-chip companies. Collective Mutual also has investments in the resource sector of the Canadian economy and a substantial position in the bonds of the governments of Canada. During 1976, the shares of Collective Mutual appreciated from \$5.10 to \$6.26, a gain of 22.7%. Its assets increased in value from \$9,803,000 to \$10,415,000 during the same period, an increase

of 6.2%.

In 1967, Principal Growth Fund was established. Principal Growth stresses junior and quality growth situations, primarily in the Canadian economy. Principal Growth was changed to a qualified investment vehicle for Registered Retirement Savings Plans, Registered Home Ownership Savings Plans and Deferred Profit Sharing Plans. During 1976 the units of Principal Growth appreciated from \$3.74 to \$4.19 with an income distribution of \$.278 per unit for a net increase of 19.5%. The assets of Principal Growth increased from \$9,612,000 to \$11,563,000 during the same period, an increase in value of 20.3%.

In 1969, Principal Venture Fund Ltd. was established. Principal Venture stresses above-average capital appreciation with its concurrent risk. Principal Venture's major position is in Canadian mines and oil companies. In addition, the Fund has a substantial investment portion in United States growth situations. During 1976, Principal Venture shares have appreciated from \$2.19 to \$3.10, an increase of 41.6%. During the same period the assets of Principal Venture grew from \$1,194,000 to \$1,348,000, an increase of 12.9%.

Each of these funds covers a particular segment of the investing public and also, to some degree, is attuned to differing phases of the economic cycle. The fastest-growing product in Principal's portfolio is the Principal Balanced Program, which combines an accumulation-savings certificate from one of our certificate companies, with one of our investment funds. This balanced investment approach provides a good degree of cyclical protection to our customers' savings.

In the light of the continuation of favourable stock market developments and the improvement of the Western economies,

our investment funds should show above-average appreciation through the balance of the decade. Such performance will certainly improve the demand for and marketability of our funds over the coming years.

Trust Services

Certificate Company products and our investment funds are rounded out by the services provided by our Alberta-incorporated Trust Company, Principal Savings and Trust Company.

Principal Trust operates, essentially, as a retail marketing center.

Besides offering chequing and savings accounts and term certificates, Principal Savings and Trust is active in the "Tax Shelter" field. This whole field is without doubt the fastest-growing area in the Trust industry. Principal Trust is fully represented with competitive products in Registered Retirement Savings Plans, Registered Home

Ownership Savings Plans, Deferred Profit Sharing Plans and Income Averaging Certificates.

The Company is also active as a broker in various service areas, particularly through its Real Estate Division, General Insurance Division, and Business Development Division.

During 1976, the Company increased its demand deposit accounts from \$1,600,000 to \$2,600,000, an increase of 62%. Its term deposit accounts increased from \$13,500,000 to \$15,000,000, an increase of 11%.

The strategy of Principal Trust is to develop earnings through the management services in proportion to earnings on the guaranteed funds. The Company also complements the other services of the Group, as well as allowing the Group an alternative distribution system.

United States Affiliates

The Principal Group maintains two affiliated investment

companies in the United States, operating out of headquarters in Seattle, Washington. The services of these affiliates, Principal Investors Corporation and Principal Services Inc., parallel those of our Canadian certificate companies.

With the current recruiting and training programs of Principal's Canadian field force now going on, it is envisioned that within the next few years the United States affiliates will have extensive assistance in developing and expanding the United States field force.

Sales Management

The products and services of the Principal Group are still marketed largely through our direct sales force, managed by Principal Consultants Ltd. Principal Consultants Ltd. maintains distributing and broker licences in virtually all Canadian provinces.

In the field of marketing



L. to R.: Kenneth D. Baxter, Acting Controller, Principal Group Ltd., 1 Year Service; C. Irene Pratt, Senior Accountant,

Administration Dept., 8 Years Service; William M. Stuart, Acting General Manager, Principal Group Ltd., 1 Year Ser-

vice; Iris P. Olson, Supervisor Customer Service, Administration Dept., 20 Years Service.

financial products through a sales force, Principal Consultants Ltd. is a great success story. In fact it is number two in the industry in Canada. Principal has maintained its reputation for excellent training, imaginative promotion, and a first-class incentive system. With its reservoir of experience and a good portfolio of products whose marketability is continually improving, Principal is headed for its greatest growth years.

During 1976, much time, energy and money were allocated to Principal Consultants Ltd. in an effort to devise a plan to meet the unparalleled opportunities facing the company. From this analysis, priorities were determined. These included a more effective customer-relations function, improved communications between Head Office and Regional Offices, a system for selecting and promoting managers, the initiation of an audiovisual program for education and motivation, and a tighter and more efficient method of budget allocation.

The Sales Development Division of the Company is organized through a Senior Vice-President and three Area Vice-Presidents covering the Atlantic Area, the Prairie Area, and the Pacific Area. Region Managers are accountable to their Area Vice-Presidents.

Principal Consultants prides itself on its motivational and educational aids, which include world travel and stimulating conferences. It was at the Annual Banff Leadership Conference in 1976, where promising managers were assembled, that the firm footing for Principal Consultants Ltd.'s growth was established.

*L. to R.: **Les A. Grant**, Planning Supervisor, Information Services Dept., 1 Year Service; **Len P. Petersson, R.I.A.**, Manager, Information Services Dept., 17 Years Service; **Rudi Rieder**, Systems Manager, Information Services Dept., 11 Years Service.*



Principal Group Ltd.

And Its Subsidiary Companies

Auditors' Report

To the Shareholders of Principal Group Ltd.

We have examined the consolidated balance sheet of Principal Group Ltd. as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year (after revision of the financial statements for that year as explained in Note 6(d)).

Edmonton, Alberta
April 18, 1977.

DELOITTE, HASKINS & SELLS
Chartered Accountants

Consolidated Statement of Retained Earnings

For The Year End December 31, 1976

	1976	1975
Balance (Deficit) At Beginning Of The Year	\$ 306,000	\$ (259,000)
Add:		
Net Income	2,449,000	794,000
	2,755,000	535,000
Deduct:		
Dividends	2,378,000	179,000
Appropriation to reserve for redemption of first preferred shares	50,000	- 50,000
Balance at End of the Year	\$ 327,000	\$ 306,000

The accompanying notes are an integral part of the financial statements.

Principal Group Ltd.


(Under The Companies Act, Alberta)


Consolidated Balance Sheet As At December 31, 1976

Assets

	1976	1975
Cash	\$ 4,374,000	\$ 2,303,000
Securities (market value \$30,551,000; 1975 \$17,737,000)	31,920,000	22,223,000
Mortgages and Secured Loans	59,096,000	56,711,000
Real Estate	1,775,000	4,114,000
Investment in Affiliates and Unconsolidated Subsidiaries	335,000	335,000
Equipment and Other Assets	1,253,000	1,280,000
Deferred Income Taxes — arising on consolidation	288,000	279,000
Excess of Cost of Shares Over Net Book Value Of Assets of Consolidated Subsidiaries	5,653,000	4,925,000

Approved by the Board:

 Director

 Director

Total	\$104,694,000	\$92,170,000
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The accompanying notes are an integral part of the financial statements.

Liabilities and Shareholders' Equity

	1976	1975
Certificate Liabilities (note 2):		
Instalment savings certificates	\$ 34,989,000	\$35,326,000
Single payment certificates	27,730,000	25,466,000
Additional provision for certificate maturities	2,058,000	2,207,000
Total certificate liabilities	64,777,000	62,999,000
Other Liabilities:		
Guaranteed investment certificates and savings deposits	17,978,000	15,312,000
Bank indebtedness — secured	1,205,000	1,584,000
Accounts payable and accrued charges	7,156,000	1,647,000
Due to parent and affiliated companies	229,000	—
Income Taxes	208,000	235,000
Mortgages — secured (Note 3)	5,750,000	6,139,000
Deferred income taxes	502,000	81,000
Total other liabilities	33,028,000	24,998,000
Minority Interest	312,000	297,000
Shareholders' Equity:		
Capital stock (Note 4)	5,700,000	3,070,000
Reserve for redemption of 1st preferred shares	450,000	400,000
General reserve	100,000	100,000
Retained earnings	327,000	306,000
Total shareholders' equity	6,577,000	3,876,000
Total	\$104,694,000	\$92,170,000

Principal Group Ltd.

Consolidated Statement of Income For The Year Ended December 31, 1976

	1976	1975
Income:		
Interest and dividends	\$7,746,000	\$6,611,000
Management and other fees	870,000	879,000
	8,616,000	7,490,000
Expense:		
Interest	5,440,000	4,260,000
Operating expenses	2,673,000	2,438,000
	8,113,000	6,698,000
Operating Income	503,000	792,000
Net Gains On Securities And Real Estate	103,000	231,000
Provision For Income Taxes	263,000	319,000
Minority Interest	26,000	20,000
Income Before Extraordinary Items	317,000	684,000
Extraordinary Items (Note 5)	2,132,000	110,000
Net Income	\$2,449,000	\$ 794,000

Consolidated Statement of Changes in Financial Position

For The Year Ended December 31, 1976

	1976	1975
Source of Cash Funds:		
Investment certificates	\$22,532,000	\$16,242,000
Increase in savings deposits	818,000	1,389,000
Mutual fund certificates	1,078,000	1,121,000
Securities sold	9,522,000	12,125,000
Principal payments on mortgages	13,317,000	10,298,000
Sale of real estate	639,000	625,000
Investment income and fees	7,671,000	6,272,000
Mortgage loans	100,000	160,000
Parent Company	—	130,000
Total	55,677,000	48,362,000
Application of Cash Funds:		
Investment certificates	23,279,000	16,943,000
Mutual funds certificates	1,020,000	1,041,000
Securities purchased	13,555,000	17,343,000
Mortgages	8,679,000	9,084,000
Principal repayments on mortgages	373,000	462,000
Real estate	—	845,000
Operating expenses	4,161,000	3,367,000
Dividends	2,148,000	180,000
Equipment and other	10,000	20,000
Total	53,227,000	49,285,000
Increase (Decrease) in Cash	2,450,000	(923,000)
Cash Funds at Beginning of The Year	719,000	1,642,000
Cash Funds at End of The Year	\$ 3,169,000	\$ 719,000

The accompanying notes are an integral part of the financial statements.

Notes to the Consolidated Financial Statements

December 31, 1976

1. Accounting Policies

- (a) The consolidated financial statements include the assets and liabilities of all subsidiary companies and the results of their operations from their respective dates of acquisition or incorporation except for the accounts of Collective Mutual Fund Ltd. and Principal Venture Fund Ltd. The company's equity in the net assets and net incomes of these mutual fund companies, is less than 1%. During the year, the company sold to its parent company its investment in Athabasca Holdings Ltd.

The excess of cost of shares over net book value of assets of subsidiary companies is recorded on the consolidated balance sheet without amortization. The increase of \$728,000 during the year primarily represents the excess of the issue price of 105,200 2nd preferred shares over the cost of those shares as acquired from a third party by Athabasca Holdings Ltd. in 1972 which previously was eliminated on consolidation.

- (b) Government bonds are carried at amortized cost as calculated under the 'deferral and amortization' method. Other securities are recorded at amortized cost as calculated under the 'completed transaction' method.
- (c) Mortgage discounts and premiums are amortized under the sum-of-digits formula applied to the due and payable term of the applicable mortgages. Bond discounts and premiums are amortized under the straight-line method over the term of the applicable bonds.

- (d) Real estate, consisting primarily of land for development, is recorded at the lower of cost (including carrying charges) and net realizable value.
- (e) Certificate liabilities are carried under the "amortized cost method". Under this method, the cost of acquiring a certificate contract is equated to a percentage factor which is added to the certificate contract rate. Such rate, referred to as the assumed rate, permits the accumulation of the maturity value and the amortization of the acquisition costs over the term of the contract.
- (f) The company follows the tax allocation basis whereby income taxes which are deferred to future years as a result of timing differences between accounting income and income for tax purposes (principally mortgage reserves) are recorded as deferred income taxes in the balance sheet.

2. Certificate Liabilities

Based on the company's twenty years of experience and a 1969 Federal and Provincial Study entitled "Report of the Canadian Committee on Mutual Funds and Investment Contracts — 1969", the cash requirements on certificate maturities are considerably less than the total provision carried by the company. The excess of the amount provided for maturities over the ultimate cash requirement at maturity has been estimated by the company to be \$2,058,000 (1975 — \$2,207,000) and is shown in the balance sheet as an additional provision for maturities. Certificate liabilities and reserves on certificate contracts issued by subsidiaries for purposes of reporting under The Investment Contracts Act of Alberta are \$65,428,000 (1975 — \$63,691,000).

3. Mortgages

Mortgages bear interest at rates ranging from 8½% to 13½% and mature 1978 to 1985. The minimum annual principal payments for 1977 aggregate \$719,000 (1975 — \$697,000).

4. Capital Stock

Authorized:

200,000 7% cumulative first preferred shares of a par value of \$25, redeemable at \$26.75; 200,000 non-cumulative redeemable second preferred shares of a par value of \$25, issuable in series, Series 1 redeemable at \$26.50; 1,000,000 common voting shares and 1,000,000 common Class A non-voting shares, both of no par value

	1976	1975
Issued and fully paid:		
100,000 7% cumulative 1st preferred shares	\$2,500,000	\$2,500,000
108,000 (1975 — 2,800) 6% 2nd preferred Series 1 shares (Note 1(a))	2,700,000	70,000
1,000,000 common voting shares	500,000	500,000
Total capital stock	\$5,700,000	\$3,070,000

5. Extraordinary Items

The extraordinary items are:

	1976	1975
Gain on sale of real estate, net of deferred income taxes of \$525,000	\$1,981,000	\$ —
Reduction in provision for income taxes as a result of losses carried forward	151,000	110,000
Total	\$2,132,000	\$110,000

6. Other

- (a) Real estate held for redevelopment, together with shares of certain subsidiary companies, are pledged to notes and debentures eliminated on consolidation of \$4,504,000 (1975 — \$4,795,000) payable to other subsidiary companies. Certain other real estate, together with shares of certain subsidiary companies, are pledged as security to bank indebtedness and mortgages payable.
- (b) Included in operating expenses are management fees paid to parent and affiliated companies and remuneration paid to directors and senior officers of the company and its consolidated subsidiaries amounting to \$878,000 (1975 — \$725,000).
- (c) The company is contingently liable for notes issued of a face amount of \$1,733,000 (1975 — \$2,206,000) which were assumed by the parent company.
- (d) The 1975 financial statements give effect to a revision in the method of valuation of real estate held for redevelopment from net realizable value to the lower of cost (including carrying charges) and net realizable value. As a result of this revision, the December 31, 1975 valuation of real estate has been reduced by \$1,809,000, deferred income taxes by \$236,000 and total shareholders' equity by \$1,573,000.
- (e) Certain of the 1975 figures have been reclassified to conform with the 1976 presentation.



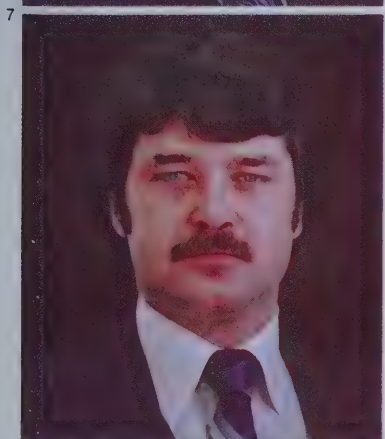
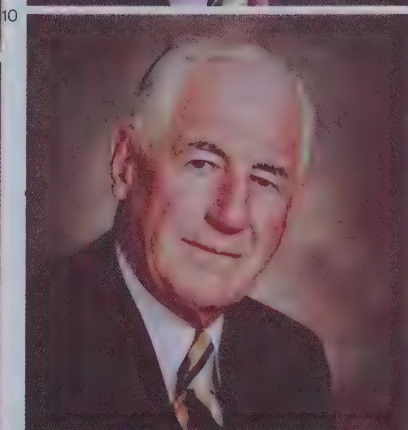
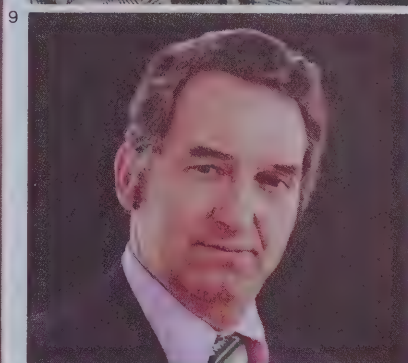
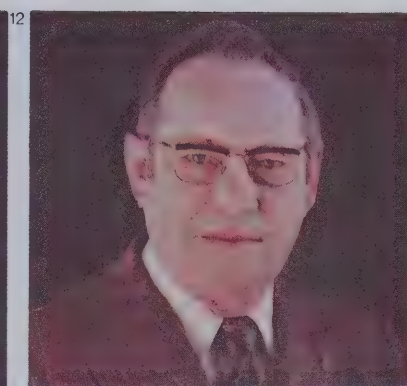
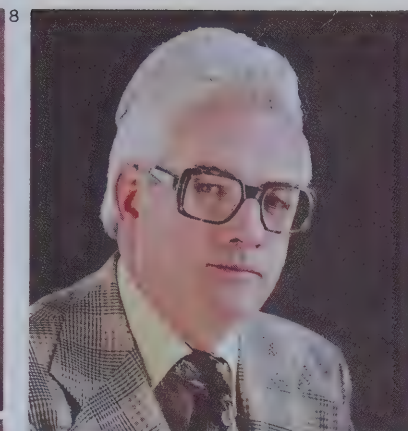
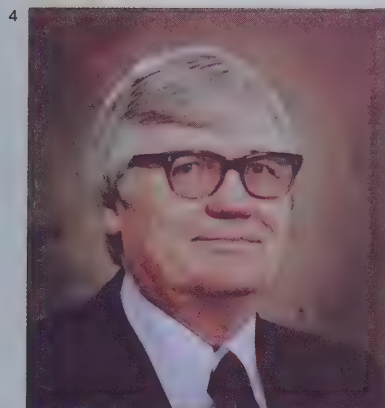
Million Dollar Round Table

Each year Principal Consultants Ltd. recognizes its top talent. These top Principal people are members of the Million Dollar Round Table. Each year the Million Dollar Round Table meets at the Victoria Conference Center. The meeting is a mixture of recreation, brainstorming and education. It is from this annual meeting that much of the impetus for the coming year originates.



- Head Office
- Area and Customer Relations Offices
- Region Offices
- Division Offices





Million Dollar Round Table

- 1 Murray MacKay**
Account Executive — Sidney, N.S.
- 2 Dean Trenholm**
Region Manager — Kelowna
- 3 James H. Mead**
Vice-President — Pacific Area
- 4 Ross E. Stewart**
Account Executive — Vancouver
- 5 A. Jay Myers**
Account Executive — Vancouver
- 6 Garey J. Srubowich**
Division Manager — Calgary
President's Club
- 7 Oliver W. Morris**
Division Manager — Calgary
- 8 Martin E. King**
Customer Relations Manager —
Edmonton
- 9 Clifford C. Likes**
Region Manager — Edmonton
President's Club
- 10 Walter W. Green**
Account Executive — Calgary
President, President's Club
- 11 Wallace H. Noble**
Region Manager — Calgary
President's Club
- 12 Urban H. Badry**
Account Executive — Edmonton
President's Club
- 13 Donald A. Slater**
Account Executive — Calgary
President's Club



Olympiad 1000

In the light of Principal's proven management capability, external economic environment, and attitude of growth throughout the organization, Principal Group is on the verge of a major expansion.

To meet this opportunity, Principal Group has initiated one of the most daring and exciting sales themes in Canada: "The Principal Olympiad 1000."

In August, 1976, the top sales managers of Principal met in Banff to develop a growth program for the balance of the decade. From that meeting developed the Olympiad theme. Oriented to sales and staff, the concept was pursued and expanded at the November Managers' Conference at the Victoria Conference Center.

The campaign evolved into a leadership trial and five games spread over four years. Progress will be reviewed and rewarded at two of the world's most exciting events: the Commonwealth Games to be held in Edmonton in 1978, and the Moscow Olympics in 1980.

To spearhead this imaginative effort, William D. Hunter, noted Canadian sportsman, sales motivator and entrepreneur, rejoined the Principal Group. Mr. Hunter's sports, business, and political contacts, particularly in the Soviet Union, will be

invaluable to Principal in planning these major events. Primarily, though, Mr. Hunter will be charged with the bold task of building the Principal Group sales force to 1000 representa-

tives by the end of 1980.

This exciting concept symbolizes the growth atmosphere in Principal Group that will place Principal in the forefront of the financial industry in Canada.



L. to R.: **Anna D'Andrea**, Manager, Main Office, Principal Savings and Trust, 3 Years Service; **William D. Hunter**, Senior Vice-President, Principal Consultants Ltd., 7 Years Service; **H. Roy Batten**, Manager, Mercer & Williams Agency Ltd., 16 Years Service; **J. Robert Cormier**, Sales Administration, Principal Consultants Ltd., 1 Year Service.

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James G. Gilhooly, Vice-President, Atlantic Area
James H. Mead, Vice-President, Pacific Area
J. Robert Cormier, Sales Administration
Judy D. Boekholt, Secretary of Sales
Lorene E. Collins, Editor "Crusader"

Stock and Bond Department

James M. Cormie, Manager
D. Robert Cormie, Analyst
Josef A. Schacter, Portfolio Manager
Audrey A. Petrin, Security Settlements

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Wayne E. Fuhr, Manager
Donald R. Warren, Mortgage Manager
M. Margaret Kirby, Mortgage Officer

Administration

William M. Stuart, Acting General Manager
Kenneth D. Baxter, Acting Controller
C. Irene Pratt, Senior Accountant
Frances Ross, Maturities Supervisor
Iris P. Olson, Customer Accounting
Olga Loga, Mutual Fund Accountant
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Olecia Buhay, Payroll
Loretta M. Fischer, Customer Service
Maureen P. Eggerton, Customer Service
Ella M. Kelly, Customer Service
Marion G. Purcell, Office Service
Marlene D. Beuerlein, Customer Service

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Rudi Rieder, Systems Manager
Alex Babich, Systems Manager
Les A. Grant, Planning Supervisor
Evelyn S. Carmody, Verifier Supervisor
Donna L. Stinner, Key Punch Supervisor

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Robert J. Kallir, Legal Advisor
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Anna D'Andrea, Manager
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Louis J. Maiko, Vegreville Division Manager

Mercer & Williams Agency Ltd.

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R. Gae Gray, Customer Service

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Roy Jeffrey, Region Secretary

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Coral R. Stalker, Region
Secretary

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Manager

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John Compton, Charlottetown
Division Manager

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Pat T. Lenihan, St. John
Division Manager

Officers

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President and Chief Executive
Officer

Kenneth N. Marlin

Vice-President

John M. Cormie

Secretary-Treasurer

Robert D. Langston, C.A.

Executive Assistant

John P. Hickey

Executive Assistant

Account Executives

Urban H. Badry, Edmonton
Donald A. Slater, Calgary
Walter W. Green, Calgary
William Henderson, Lethbridge
James Lindsay, Vancouver
A. Jay Myers, Vancouver
Ross E. Stewart, Vancouver
Al G. Peverell, Vancouver
Cliff J. Anderson, Kelowna
Andy D. Falkenberg,
Prince George
Benjamin A. Maguire, Kelowna
Percy A. Montrose, Fredericton
Norman J. LeBlanc, Moncton
Murray A. MacKay, Sydney



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1976 ANNUAL REPORT